

ELKHART GENERAL HOSPITAL, INC.

FINANCIAL STATEMENTS

December 31, 2007 and 2006

ELKHART GENERAL HOSPITAL, INC.
Elkhart, Indiana

FINANCIAL STATEMENTS
December 31, 2007 and 2006

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Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Elkhart General Hospital, Inc.
Elkhart, Indiana

We have audited the accompanying balance sheets of Elkhart General Hospital, Inc. as of December 31, 2007 and the related statement of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Elkhart General Hospital, Inc. as of December 31, 2006 were audited by other auditors, whose report dated April 27, 2007 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of Elkhart General Hospital, Inc. as of December 31, 2007 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 7 to the financial statements, on January 1, 2007, the Hospital changed its method of accounting for postretirement benefits to comply with new accounting guidance in SFAS No. 158 Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.


Crowe Chizek and Company LLC

South Bend, Indiana
May 27, 2008

ELKHART GENERAL HOSPITAL, INC.
BALANCE SHEETS
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 12,289,285	\$ 6,880,838
Short-term investments	10,186,115	10,257,755
Patient accounts receivable, less allowance for doubtful accounts of \$10,749,000 in 2007 and \$7,558,000 in 2006	47,348,818	37,815,644
Inventories	5,877,247	5,695,181
Prepaid expenses and other current assets	6,960,225	5,014,674
Total current assets	82,661,690	65,664,092
Assets limited as to use, less current portion	153,059,054	142,317,766
Long-term investments	1,876,286	1,817,039
Property and equipment, net	160,532,857	165,762,351
Investments in and advances to affiliates	1,205,162	1,951,011
Deferred bond issuance costs and other assets	2,838,509	3,454,296
	<u>\$ 402,173,558</u>	<u>\$ 380,966,555</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 14,301,251	\$ 12,206,117
Employee compensation and related liabilities	10,669,916	10,783,743
Estimated payables to third-party payors	1,024,391	1,537,061
Capital lease obligations	58,861	159,826
Current maturities of long-term debt	1,810,000	1,705,000
Accrued interest	983,726	973,975
Total current liabilities	28,848,145	27,365,722
Noncurrent liabilities		
Accrued pension liability	10,713,599	5,857,376
Capital lease	-	70,462
Long-term debt	89,855,000	91,665,000
Other long-term benefit obligations	4,496,720	2,880,442
Total liabilities	133,913,464	127,839,002
Net assets		
Unrestricted	262,898,975	248,138,266
Permanently restricted	5,361,119	4,989,287
Total net assets	268,260,094	253,127,553
	<u>\$ 402,173,558</u>	<u>\$ 380,966,555</u>

See accompanying notes to financial statements.

ELKHART GENERAL HOSPITAL, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Unrestricted revenues, gains and other support		
Net patient service revenue	\$ 251,963,268	\$ 246,286,151
Other operating revenue	<u>11,312,147</u>	<u>11,597,471</u>
	<u>263,275,415</u>	<u>257,883,622</u>
Expenses		
Salaries and wages	86,256,188	86,894,293
Employee benefits	35,455,860	39,233,423
Purchased services-medical laboratory	12,693,503	13,133,417
Supplies	36,446,441	35,939,637
Provision for doubtful accounts	13,961,650	13,371,909
Depreciation and amortization	17,821,028	17,371,043
Other expense	<u>48,251,931</u>	<u>46,883,541</u>
	<u>250,886,601</u>	<u>252,827,263</u>
Operating revenue in excess of expenses	12,388,814	5,056,359
Nonoperating		
Nonoperating income/expense, net	17,429,395	6,764,934
Other	<u>(226,756)</u>	<u>74,939</u>
	<u>17,202,639</u>	<u>6,839,873</u>
Revenue in excess of expenses	29,591,453	11,896,232
Other changes in unrestricted net assets		
Change in unrealized investment gains/losses, net	(10,272,310)	5,276,013
Additional minimum pension liability	<u>-</u>	<u>7,759,344</u>
 Change in unrestricted net assets before FAS 158 adoption	 19,319,143	 24,931,589
Effect of adoption of recognition and measurement provisions of FAS statement 158	<u>(4,558,456)</u>	<u>-</u>
Change in unrestricted net assets	14,760,687	24,931,589
Permanently restricted net assets		
Investment income, net of trust fees	126,258	64,359
Realized investment gains	559,096	460,044
Change in unrealized investment gains/losses, net	(194,500)	30,435
Investment income released from restriction and used for operations	<u>(119,000)</u>	<u>(110,000)</u>
Change in permanently restricted net assets	<u>371,854</u>	<u>444,838</u>
Change in net assets	15,132,541	25,376,427
Net assets beginning of year	<u>253,127,553</u>	<u>227,751,126</u>
Net assets at end of year	<u>\$ 268,260,094</u>	<u>\$ 253,127,553</u>

See accompanying notes to financial statements.

ELKHART GENERAL HOSPITAL, INC.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Change in net assets	\$ 15,132,541	\$ 25,376,427
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	17,821,028	17,371,043
Provision for doubtful accounts	13,961,650	13,371,909
Undistributed equity in earnings of investments in affiliates	(1,422,869)	(1,185,866)
Net realized and change in unrealized investment gains/losses, net	(4,828,497)	(11,991,854)
Proceeds from restricted contributions and gains on investments, net of investment income released from restrictions	(371,854)	(444,838)
Loss on sale of property and equipment	277,035	86,920
Changes in operating assets and liabilities:		
Patient accounts receivable	(23,494,824)	(11,131,995)
Prepaid expenses	(2,127,617)	(767,090)
Other assets	495,909	(375,125)
Accounts payable, accrued expenses, accrued pension and other	8,463,559	(3,174,452)
Estimated payables to third-party payors	<u>(512,670)</u>	<u>(1,379,154)</u>
Net cash provided by operating activities	23,393,391	25,755,925
Cash flows from investing activities		
Purchases of investments	(413,751,779)	(134,772,928)
Sales of investments	407,851,382	140,292,239
Purchase of property and equipment	(12,791,598)	(26,647,917)
Proceeds from the sale of property and equipment	42,906	120,585
Change in investment in and advances to affiliates	<u>2,168,718</u>	<u>1,251,915</u>
Net cash used in investing activities	(16,480,371)	(19,756,106)
Cash flows from financing activities		
Payments of long-term debt	(1,705,000)	(1,640,000)
Change in capital lease obligation	(171,427)	(157,677)
Proceeds from restricted contributions and gains on investments, net of investment income released from restrictions	<u>371,854</u>	<u>444,838</u>
Net cash used in financing activities	<u>(1,504,573)</u>	<u>(1,352,839)</u>
 Increase in cash and cash equivalents	 5,408,447	 4,646,980
Cash and cash equivalent at beginning of year	<u>6,880,838</u>	<u>2,233,858</u>
 Cash and cash equivalent at end of year	 <u>\$ 12,289,285</u>	 <u>\$ 6,880,838</u>
 Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 4,139,598	\$ 4,069,685
Property and equipment acquired through accounts payable	1,091,300	984,092

See accompanying notes to financial statements.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Elkhart General Hospital, Inc. (the Hospital), a not-for-profit corporation, is a community hospital located in Elkhart, Indiana, and is exempt from federal income taxes on related income pursuant to Section 501(c)(3) of the Internal Revenue Code.

Mission Statement: The Hospital's mission is to create a healthier community by being a premier provider of healthcare; promoting the health and well being of individuals and families by providing education that may aid in detection and prevention of disease; conducting its activities with compassion and respect; acting with the recognition that health is holistic and embraces the body, mind and spirit; seeking and partnering with those who share its mission, continuously improving the quality and cost-effectiveness of services; and maintaining the financial viability of the Hospital while continuing its charitable role in the community.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less when purchased, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

Patient Accounts Receivable, Estimated Payables to Third-Party Payors, and Net Patient Service Revenue: Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts due from patients, third-party payors, and others (principally insurers) for services rendered.

The Hospital evaluates the collectibility of its accounts receivable based on the length of time the receivable is outstanding, payor class, historical experience, an assessment of business and economic conditions, and trends in healthcare coverage. Accounts receivable are charged to the allowance for doubtful accounts when they are deemed uncollectible.

Estimated retroactive adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies, are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Forgivable Loans: The Hospital has loans to employed and associated physicians that provide for forgiveness over a specified period of time. Compensation expense will be recorded in accordance with the agreement upon completion of the specified period. Forgivable loans recorded in prepaid expenses and other current assets on the balance sheets at December 31, 2007 and 2006 were \$432,918 and \$254,079.

Short-Term and Long-Term Investments: Investments in equity securities which readily determinable fair value and all investments in debt securities are measured at fair value in the balance sheets. Fair value is based on quoted market prices. Investment income is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. The long-term investment represents assets held in trust related to a deferred compensation plan.

Assets Limited as to Use: Assets limited as to use consist of investments set aside by the Board of Directors (the Board) for specific projects or purposes, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Assets limited as to use that are required to meet current liabilities are reported as current assets. Additionally, assets limited as to use include investments held by trustees under debt agreements.

Inventories: Inventories, primarily consisting of pharmaceuticals and other supplies, are stated at cost (first-in, first-out method) and are valued at lower of cost or market value.

Life Insurance: In September 7, 2006, the Emerging Issues Task Force (EITF) reached a conclusion on Issue No. 06-5, "Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with Financial Accounting Standards Board (FASB) Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance" ("EITF 06-5"). The scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance policies purchased by entities protecting against the loss of "key persons." The six issues are clarifications of previously issued guidance on FASB Technical Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. Adoption of EITF 06-5 did not have a material impact on the Hospital's financial statements.

Property and Equipment: Property and equipment are recorded on the basis of cost or, if donated, at fair value at the date of donation. Depreciation is provided by using the straight-line method based on expected useful lives, ranging from 3 to 40 years, of the various classes of assets. The amount of depreciation expense for the years ended December 31, 2007 and 2006 was \$17,701,150 and \$17,251,165. Routine maintenance, repairs, renewals, and replacement costs are charged to expense as incurred. Expenditures which materially increase values or extend useful lives are capitalized. Costs and related accumulated depreciation of property sold or otherwise retired are removed from the accounts.

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Capitalized Interest: Interest costs capitalized during the construction period of various projects aggregated \$413,645 and \$314,489 at December 31, 2007 and 2006.

Investment in Affiliates: The Hospital accounts for its investment in less than majority-owned and controlled affiliates using the equity method of accounting.

Deferred Financing Cost: Financing costs are capitalized and amortized by the effective interest method over the term of the related bonds. The gross costs being amortized are \$3,595,409. At December 31, 2007, the accumulated amortization was \$756,900. Amortization expense is estimated at approximately \$119,900 per year for 2008 through 2012.

Permanently Restricted Net Assets: Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. In accordance with the donor's restriction, a majority of the investment income and investment gains or losses are to be reinvested with the principal in perpetuity. A specified portion of income earned by permanently restricted net assets is released from restriction and used for operations and, therefore, is included in the statements of operations and changes in net assets as other revenue.

Revenue in Excess of Expenses: The statements of operations and changes in net assets include revenue in excess of expenses. Changes in unrestricted net assets, which are excluded from revenue in excess of expenses, include the change in unrealized gains and losses on investments and net assets released from restrictions.

Nonoperating income/expense, net primarily consists of investment income, net of interest expense.

Community Commitment: The Hospital provides services without charge, or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. The criteria for charity care takes into consideration Health & Human Services Federal Poverty Guidelines, family assets, family size, employment status, ordinary family expenses, and other related information.

The net cost of charity care provided was approximately \$6,553,000 in 2007 and \$5,455,000 in 2006. This cost estimate was based upon the Hospital-wide cost to charge ratio.

Relative to gross charges, the Hospital provided charity care at a rate of 2.8% and 2.3% in 2007 and 2006, respectively.

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

In addition to charity care, the Hospital provided services under the Medicaid and Medicare programs for financially needy, elderly and disabled patients, for which the payments received were less than the cost of providing the services. The unpaid costs attributable to providing services under the Medicaid and Medicare programs were estimated to be:

	<u>2007</u>	<u>2006</u>
Unreimbursed Medicare cost	\$ 28,180,556	\$ 32,749,452
Unreimbursed Medicaid cost	<u>13,861,740</u>	<u>13,524,438</u>
	<u>\$ 42,042,296</u>	<u>\$ 46,273,890</u>

In addition, the Hospital is involved in many community-benefit activities. These activities are wide-ranging and include health education, health screenings, support groups, seminars, and speakers. These activities are conducted free of charge or below the cost of providing them. The estimated cost of these activities was approximately \$2,295,000 and \$2,230,000 in 2007 and 2006, respectively. The estimated cost of physician recruitment was approximately \$211,000 and \$90,000 in 2007 and 2006, respectively.

Medical Malpractice Insurance: Medical malpractice insurance coverage is provided under a claims-made policy, which has a \$50,000 deductible effective February 1, 2005, and a \$5,000 deductible prior to February 1, 2005. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of \$750,000 per occurrence for professional liability, \$100,000 of which would be paid through the Hospital's malpractice insurance coverage, and the balance would be paid by the State of Indiana Patient Compensation Fund. As of July 1999, the Indiana Medical Malpractice Act provides recovery up to \$1,250,000 per occurrence, with the first \$250,000 covered by the Hospital's insurance. While the ultimate result of any claim or action cannot be determined, management does not believe that the outcome of any claim or action will have a material adverse effect on the financial position or results of operations of the Hospital.

Advertising: Advertising costs are expensed as incurred. Advertising costs were \$1,553,696 and \$1,755,033 for 2007 and 2006, respectively.

Reclassifications: Certain prior year amounts have been reclassified to conform with the current year presentation.

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 2 - NET PATIENT SERVICE REVENUE

The Hospital provides care to certain patients under payment arrangements with Medicare, Medicaid, and various health maintenance and preferred provider organizations at amounts different from its established rates. Services provided under those arrangements are paid at prospectively determined rate per discharge, reimbursable costs, discounted charges, and per diem rates. Reported costs and/or services provided under certain arrangements are subject to the audit by the administering agencies. Changes in the Medicare and Medicaid programs and reduction of funding levels could have an adverse effect on the future amounts recognized as net patient service revenue.

Combined revenues received under the Medicare, Medicaid, and Wellpoint, Inc. payment arrangements account for 66.9% and 66.8% of net patient service revenue for the years ended December 31, 2007 and 2006, respectively. Provision has been made in the financial statements for contractual adjustments, representing the difference between standard charges for services and actual or estimated payments.

Net patient service revenue is summarized as follows for the years ended December 31

	<u>2007</u>	<u>2006</u>
Gross patient service revenue, excluding charity care and forgone charges		
Inpatient		
Routine	\$ 76,818,278	\$ 75,471,352
Ancillary	<u>193,938,414</u>	<u>200,165,875</u>
Total inpatient	270,756,692	275,637,227
Outpatient	<u>214,103,250</u>	<u>198,205,616</u>
	484,859,942	473,842,843
Less contractual allowances	<u>232,896,674</u>	<u>227,556,692</u>
Net patient service revenue	<u>\$ 251,963,268</u>	<u>\$ 246,286,151</u>

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party agreements. Major components of gross patient accounts receivable include 17.9% from Medicare, 8.4% from Medicaid, and 14.7% from Wellpoint, Inc. at December 31, 2007 and 23.8% from Medicare, 12.1% from Medicaid, and 10.7% from Wellpoint, Inc. at December 31, 2006.

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 2 - NET PATIENT SERVICE REVENUE (Continued)

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

NOTE 3 - ASSETS LIMITED AS TO USE AND OTHER FINANCIAL INSTRUMENTS

The composition of assets limited as to use and short-term and long-term investments is as follows at December 31:

	<u>2007</u>		<u>2006</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash and cash equivalents	\$ 16,107,619	\$ 16,106,537	\$ 1,278,538	\$ 1,278,538
Mutual funds	98,762,369	92,883,899	61,503,092	61,433,203
Marketable equity securities	9,638,937	8,451,622	87,979,251	69,826,664
Bonds	<u>40,612,530</u>	<u>39,907,657</u>	<u>3,631,679</u>	<u>3,615,605</u>
	<u>\$ 165,121,455</u>	<u>\$ 157,349,715</u>	<u>\$ 154,392,560</u>	<u>\$ 136,154,010</u>

Assets limited as to use, which are carried at fair value based on quoted market prices, consist of the following at December 31:

	<u>2007</u>	<u>2006</u>
Permanently restricted	\$ 5,361,119	\$ 4,989,287
Unrestricted-board-designated	<u>147,697,935</u>	<u>137,328,479</u>
	<u>\$ 153,059,054</u>	<u>\$ 142,317,766</u>

The unrestricted board-designated assets represent funds designated by the Board for future replacement and acquisition of property and equipment and the payment of principal on long-term debt.

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 3 - ASSETS LIMITED AS TO USE AND OTHER FINANCIAL INSTRUMENTS
(Continued)

Investment returns for assets limited as to use, cash and cash equivalents, and short-term investments comprise the following for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Interest and dividend income	\$ 7,702,528	\$ 5,583,510
Interest expense	(1,267,530)	(1,345,090)
Net realized gains/losses	15,295,307	6,685,406
Net change in unrealized gains/losses	<u>(10,466,810)</u>	<u>5,306,448</u>
	<u>\$ 11,263,495</u>	<u>\$ 16,230,274</u>

Investment returns are included in the statements of operations and changes in net assets for the years ended December 31 as follows:

	<u>2007</u>	<u>2006</u>
Investment income and expense included in nonoperating income/expense, net	\$ 21,044,951	\$ 10,399,423
Other changes in unrestricted net assets- net change in unrealized gains/losses, net	(10,272,310)	5,276,013
Permanently restricted net assets investment income, net of trust fees, realized investment gains, and change in unrealized gains/losses, net	<u>490,854</u>	<u>554,838</u>
	<u>\$ 11,263,495</u>	<u>\$ 16,230,274</u>

Nonoperating income/expense, net included \$3,615,579 and \$3,634,487 in interest expense related to long-term borrowing for 2007 and 2006, respectively.

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 3 - ASSETS LIMITED AS TO USE AND OTHER FINANCIAL INSTRUMENTS
(Continued)

Over the past several years, the public equity markets experienced significant fluctuations, which impacted investments held by the Hospital. Management continually reviews its investment portfolio and evaluates whether declines in the fair value of the securities should be considered other than temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors, and the length of time and extent to which the market value has been less than cost. Management recognized \$2,352,000 and \$269,000 of losses related to other-than-temporary impairments of investments in 2007 and 2006, respectively.

The following tables summarize the unrealized losses on investments held at December 31:

	<u>Less than Twelve Months</u>		<u>Twelve Months or Longer</u>	
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>
	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
<u>2007</u>				
Common stock	\$ 1,419,155	\$ 519,602	\$ 177,567	\$ 26,110
Mutual funds	<u>1,237,672</u>	<u>120,081</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,656,827</u>	<u>\$ 639,683</u>	<u>\$ 177,567</u>	<u>\$ 26,110</u>
<u>2006</u>				
Common stock	\$ 6,361,155	\$ 443,598	\$ 331,406	\$ 45,238
Mutual funds	<u>13,043,220</u>	<u>178,040</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 19,404,375</u>	<u>\$ 621,638</u>	<u>\$ 331,406</u>	<u>\$ 45,238</u>

The carrying values reported in the balance sheets for cash and cash equivalents, patient accounts receivable, investments in and advances to affiliates, accounts payable and accrued expenses, and estimated payables to third-party payors approximate their fair values at December 31, 2007 and 2006. The fair value of the Hospital's debt based on quoted market prices for same or similar issues was \$92,277,009 and \$94,862,972 at December 31, 2007 and 2006, respectively.

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 4,437,235	\$ 4,426,441
Property held for future expansion	2,799,386	2,799,388
Building and improvements	192,386,499	187,216,925
Equipment	105,914,525	109,408,247
EMR Software costs	10,177,021	9,603,889
Construction-in-progress	<u>6,421,576</u>	<u>6,003,319</u>
	322,136,242	319,458,209
Less allowance for depreciation	<u>161,603,385</u>	<u>153,695,858</u>
	<u>\$ 160,532,857</u>	<u>\$ 165,762,351</u>

NOTE 5 - LONG-TERM DEBT

Long-term debt at December 31 is summarized as follows:

	<u>2007</u>	<u>2006</u>
Hospital Authority of Elkhart County (the Authority), Hospital Revenue Bonds, Series 1998, interest rates ranging from 4.68% to 5.25%	\$ 43,790,000	\$ 44,870,000
Hospital Authority of Elkhart County, Hospital Revenue Bonds, Series 2003, interest rates ranging from 3.05% to 4.00%	<u>47,875,000</u>	<u>48,500,000</u>
	91,665,000	93,370,000
Less current maturities	<u>1,810,000</u>	<u>1,705,000</u>
	<u>\$ 89,855,000</u>	<u>\$ 91,665,000</u>

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 5 - LONG-TERM DEBT (Continued)

The Authority issued \$49,330,000 of Series 1998 Hospital Revenue Bonds (Series 1998 Bonds). The Hospital borrowed the proceeds of the sale of the Series 1998 Bonds and evidenced this loan with a loan agreement, issued under the Trust Indenture date November 15, 1998, between the Authority and Bank One, N.A., as trustee. A portion of the proceeds of the Series 1998 Bonds was issued to retire interest payments and principal payments of certain previously outstanding Series 1992 Bonds. The remaining proceeds were used to reimburse the Hospital for certain capital expenditures. The Series 1998 Bonds are unsecured general obligations of the Hospital.

The Authority issued \$50,000,000 of Series 2003 Hospital Revenue Bonds (series 2003 Bonds). The Hospital borrowed the proceeds of the sales of the Series 2003 Bonds and evidenced this load with a loan agreement, issued under the Trust Indenture dated April 2, 2003, between the Authority, and Bank One, N.A, as trustee. The proceeds of the loan were used to pay or reimburse the cost of construction and acquisition of certain capital assets. The Series 2003 Bonds are unsecured general obligations of the Hospital.

The loan agreements require maintenance of a certain debt service coverage ratio, limit additional borrowings, and require compliance with various other restrictive covenants. The Hospital was in compliance with all covenants.

Required annual principal payments of long-term debt for each of the next five years are as follow: 2008-\$1,810,000; 2009-\$1,880,000; 2010-\$1,985,000; 2011-\$2,070,000; 2012-\$2,180,000.

Interest paid during 2007 and 2006 was \$4,139,598 and \$4,069,685, respectively.

NOTE 6 - LEASE OBLIGATIONS

The Hospital leases various equipment for use in operations. Total rental expense was \$4,465,000 and \$3,904,000 in 2007 and 2006, respectively. At December 31, 2007 minimum future rental payments under non-cancelable operating leases are as follows:

2008	\$ 673,657
2009	547,664
2010	433,850
2011	330,660
2012	<u>126,331</u>
	<u>\$ 2,112,162</u>

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 7 - BENEFIT PLAN

The Hospital maintains a defined-benefit pension plan that covers a majority of its employees as of December 31. A plan measurement date of January 1 is utilized for this plan. A summary of the changes in the projected benefit obligation and plan assets and the resulting funded status of the defined-benefit pension plan are as follows:

	<u>2007</u>	<u>2006</u>
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 103,842,030	\$ 99,180,237
Service cost	3,869,630	4,607,705
Interest cost	6,131,129	5,799,542
Plan amendments	-	148,785
Curtailments	(8,803,064)	-
Actuarial (gain) loss	(4,007,711)	(3,355,544)
Benefits paid	<u>(2,753,464)</u>	<u>(2,538,695)</u>
Projected benefit obligation at year-end	<u>\$ 98,278,550</u>	<u>\$ 103,842,030</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 82,682,871	\$ 76,393,242
Actual return on plan assets	6,303,217	9,506,833
Employer Contributions	2,030,438	-
Benefits paid	(2,753,464)	(2,538,695)
Expenses	<u>(698,111)</u>	<u>(678,509)</u>
Fair value of plan assets at year-end	<u>\$ 87,564,951</u>	<u>\$ 82,682,871</u>

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 7 - BENEFIT PLAN (Continued)

	<u>2007</u>	<u>2006</u>
Funded status of the plan	\$ (10,713,599)	\$ (21,159,159)
Unrecognized net actuarial gain	-	22,711,046
Unrecognized prior service cost	-	252,984
Minimum liability adjustment	<u>-</u>	<u>(7,662,247)</u>
Accrued benefit (liability) prepaid pension cost	<u>\$ (10,713,599)</u>	<u>\$ (5,857,376)</u>
Net periodic pension cost comprises the following		
Service cost	\$ 3,869,630	\$ 4,607,705
Interest cost	6,131,129	5,799,542
Expected return on plan assets	(7,180,693)	(6,761,113)
Recognized loss due to curtailments	216,579	-
Net amortization and deferrals	<u>591,535</u>	<u>2,030,200</u>
Net periodic pension cost	<u>\$ 3,628,180</u>	<u>\$ 5,676,334</u>

The accumulated benefit obligation for the defined-benefit pension plan was \$92,564,340 and \$88,540,247 at December 31, 2007 and 2006, respectively.

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Discount rate	6.37%	6.12%
Rate of compensation increase	4.00/3.00	4.00/3.00

Weighted average assumptions used to determine net periodic pension cost for years end December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Discount rate	6.12%	5.82%
Expected long-term return on plan assets	8.50	9.00
Rate of compensation increase (Until 40/ thereafter)	4.00/3.00	4.00/3.00

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 7 - BENEFIT PLAN (Continued)

The Hospital's pension plan weighted-average asset allocations at December 31 by asset category are as follows:

	<u>Target</u>	<u>2007</u>	<u>Actual</u> <u>2006</u>
Asset category			
Equity securities	57.00 %	74.00 %	75.00 %
Debt securities	40.00	23.00	24.00
Other	<u>3.00</u>	<u>3.00</u>	<u>1.00</u>
	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

The plan exists to provide retirement benefits for covered employees of the Hospital consistent with the long-term interests of plan participants and their beneficiaries. The plan's investment objectives may include, but are not limited to maintaining the purchasing power of current assets and all future contributions by producing positive real rates of return on plan assets; having the ability to pay all benefit and expense obligations when due; maximizing return within reasonable and prudent levels of risk in order to minimize contributions; and controlling costs in administering the plan and managing the investments.

Contributions: Plan contributions made for 2007 were \$2,030,438. Any contributions made for the 2008 plan year will be discretionary or as required by applicable law.

Estimated Future Benefit Payments: The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

	<u>Pension</u> <u>Benefits</u>
2008	\$ 2,950,000
2009	3,320,000
2010	3,700,000
2011	4,230,000
2012	4,810,000
2013-2017	<u>32,990,000</u>
	<u>\$ 52,000,000</u>

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 7 - BENEFIT PLAN (Continued)

On September 29, 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158 (Statement 158), Employers' Accounting for Defined Benefit Pension and Other Post Retirement Benefit Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). This Standard requires the overfunded or underfunded status of a defined benefit post-retirement plan to be recognized as an asset or liability in its statement of operations and change in net assets and to recognize changes in that funded status in the year in which the changes occur through the statement of operations and change in net assets. Since the effective date of adoption was for statements with fiscal years ended after June 15, 2007, this year's determination also included the required liability recognition under the new FASB 158 Standard. The accumulated loss for the year ended December 31, 2007 was \$4,558,456, which served as a reduction of net assets.

NOTE 8 - FUNCTIONAL EXPENSES

The Hospital provides general inpatient and outpatient healthcare services to its surrounding community. Expenses related to providing these services are as follows:

	<u>2007</u>	<u>2006</u>
Healthcare services	\$ 230,605,003	\$ 235,878,966
General and administrative	<u>20,281,598</u>	<u>16,948,297</u>
	<u>\$ 250,886,601</u>	<u>\$ 252,827,263</u>

NOTE 9 - INVESTMENTS IN NONCONSOLIDATED AFFILIATES

The Hospital owns a 33% interest in Partners National Health Plans of Indiana, Inc., a health maintenance organization (HMO), at December 31, 2007 and 2006. On January 23, 2003, the HMO announced a phase-out plan. In March 2007, the Hospital received a \$700,000 return of investment. It is expected that the phase-out will be finalized during 2008. The Hospital does not anticipate that the dissolution of the HMO will have a material adverse effect on its operations or financial condition.

The Hospital owns a 40% interest in Northern Indiana Ambulatory Surgery Center, LLC, d/b/a RiverPointe Surgery Center (the Surgery Center). The Surgery Center was formed during 1996 by the Hospital and individual physicians to own and operate an ambulatory surgery center in space leased from the Hospital.

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 9 - INVESTMENTS IN NONCONSOLIDATED AFFILIATES (Continued)

The Hospital owns 50% of RiverPointe Cardiovascular Lab, LLC (the Cardiovascular Lab). The Cardiovascular Lab is owned by the Hospital and the Elkhart Clinic to operate a cardiovascular laboratory in space leased from the Hospital.

The Hospital also owns 25% of Community Occupational Medicine, LLC, an occupational healthcare facility located in Elkhart, Indiana.

The Hospital owns 42% of Wakarusa Medical Clinic, LLC, which owns the Wakarusa Medical Clinic facility and leases it to the Hospital.

The Hospital is a guarantor for a portion the debt of an unconsolidated joint venture, Community Occupational Medicine, LLC, in which the Hospital records an equity interest. The portion of the debt guaranteed by the Hospital is estimated at \$686,000 at December 31, 2007. No amounts have been paid or accrued pursuant to this guarantee as of December 31, 2007. The Hospital has set aside corresponding funds, which are recorded as short-term investments on the balance sheets.

Aggregate financial information (unaudited) relating to these investments is as follows:

	<u>2007</u>	<u>2006</u>
Assets	\$ 7,011,311	\$ 8,873,878
Liabilities	3,455,173	3,523,895
Net Income	3,163,023	3,350,246

NOTE 10 - RELATED-PARTY TRANSACTIONS

Elkhart General Hospital Foundation (the Foundation) was founded in 1966 to obtain funds through charitable contributions and is authorized by the Hospital to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts to be distributed to the Hospital, the timing of such distributions, and the purposes for which such funds are to be used. In addition, the Foundation directs the investment activities of the Jonathan Primley Fund (permanently restricted assets), which released \$119,000 and \$110,000 to Hospital operations in 2007 and 2006, respectively.

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 10 - RELATED-PARTY TRANSACTIONS (Continued)

The Hospital provides certain services in the ordinary course of business to the Surgery Center. Revenue recognized by the Hospital in connection with this arrangement for the years ended December 31, 2007 and 2006, was \$81,000 and \$79,000, respectively. In addition, the Hospital received rental income from physicians and the Surgery Center occupying the RiverPointe Medical Office Building of \$1,476,000 and \$1,459,000 for the years ended December 31, 2007 and 2006, respectively. Revenue recognized by the Hospital in connection with both arrangements is included in other operating revenue in the statements of operations and changes in net assets.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Environmental Liabilities: In January 1989, the Hospital received a notice letter from the U.S. Environmental Protection Agency (the EPA) indicating that it is one of numerous potentially responsible parties (PRP's) that may be liable for the cost to clean up the former Himco, Inc. (Himco) waste disposal site in Elkhart, Indiana. Since that time, the PRP's and the EPA have performed numerous studies to determine what, if any, hazardous substances were at the site. The EPA, based upon the studies, has issued several Records of Decisions (RODs) over the years, with the final ROD being less than the previous ROD's.

In 2006, Bayer Corporation, Himco, and the PRP Group of which the Hospital is a member negotiated a Consent Decree with the EPA and a separate Settlement Agreement with Bayer Corporation. A key point of the Consent Decree is that the 30 Settling Parties other than Bayer and Himco are collectively responsible to pay \$2,675,000 to be used to remediate the landfill. The share for the Hospital and each other "large" contributor is approximately \$123,000. As part of the Settlement Agreement with Bayer Corporation, the Hospital and its two insurers (Hartford and St. Paul Insurance) decided to pay Bayer Corporation for its potential share plus a premium of 40% in exchange for Bayer Corporation indemnifying the Hospital against future potential liability for the Contingent Remedial Action.

The Hartford and St. Paul Insurance agencies, each of which issued liability insurance policies to the Hospital covering the time when it is believed the Hospital used the Himco landfill, has reimbursed the Hospital for all of its settlement costs and its legal defense costs.

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

Laboratory Services: The Hospital entered into a pathology and clinical laboratory services agreement (agreement) effective July 2007 through June 2012 unless terminated sooner per the terms of the agreement with a third party. The agreement requires base compensation for services rendered of \$12,000,000 in year 1, and \$10,800,000 in year 2. The agreement requires a mutual agreement on future year compensation methodologies. If a mutual agreement cannot be reached the third party has the option, with 30 days written notice prior to year 2 contract end, to extend the contract through year 3 at the year 2 rate plus the lessor of 3% or the Consumer Price Index as described in the agreement. If a mutual compensation methodology is not reached prior to the end of contract year 3 the agreement shall terminate on June 30, 2010. The Hospital paid \$6,000,000 for pathology and clinical laboratory services under the agreement in 2007. The expenses are included in purchased services - medical laboratory in operating expenses.

Self Funded Health Insurance: The Hospital provides a self-funded health insurance plan to its employees. The Hospital has stop-loss insurance to reduce its exposure under this plan. The plan includes \$50,000 specific stop-loss insurance per individual per year with an aggregate limit of \$2,000,000. The individual is responsible for all claims after the \$2,000,000 aggregate limit. The Hospital accrues for the estimated uninsured portion of pending claims, both known and incurred but not reported. These accruals are provided based on management's evaluation of the nature and severity of claims and the Hospital's historical claims experience. The liability accrued at December 31, 2007 and 2006 was \$1,902,043 and \$2,465,020, respectively, and is included in accounts payable and accrued expenses. The expense, which is included in employee benefits in operating expenses, associated with the self-funded health insurance plan was \$14,290,161 and \$14,664,794 for 2007 and 2006, respectively.

Non-compete: For a period of one year after termination of employment from the Hospital, no former physician may establish, operate, or provide medical services within a certain geographic area, as further described in the operating agreement.

Construction and Purchase Commitments: The Hospital entered into various construction and fixed asset purchase contracts during 2007 totaling approximately \$2,630,000 in future commitments.

(Continued)

ELKHART GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 12 - SUBSEQUENT EVENT

Pension Plan: Effective January 1, 2008 the existing pension plan was partially frozen and the Hospital established a new 403B plan for employees who are under age 50, and had less than 15 years of service at the time of the partial freeze. Under the new plan, employees make elective deferrals which are matched by the Hospital. The Hospital will contribute \$0.50 for every \$1.00 of an employee's elective deferral. Deferrals in excess of 6% of an employee's compensation will not be matched. The matched amount becomes vested after the employee completes a year of service which is defined as working at least 1,000 hours. The Hospital will also contribute a fixed percentage of the employee's gross pay, based on the employee's age and years of service, into a Retirement Accumulation Account. The Retirement Accumulation Account will be funded after the close of each calendar year.

IT Services: The Hospital entered into an Information Services agreement (ISA) with CareTech Solutions, Inc. effective February 2008 to provide information technology services through January 2012. The agreement automatically renews for two successive three year terms unless either party provides 180 days written notice. The Hospital may terminate the agreement for any reason with 180 days written notice. The agreement requires a base service fee of \$3,975,000 in year one, which will be reduced by .5% in years two and three and .25% in years four and five. The agreement calls for an annual increase of the base fee by the Consumer Price Index, as defined in the agreement, after the reduction in the base fee each year.